

The Manager and the Comptroller: A Necessary Partnership

Good Afternoon:

When Admiral Forrest asked me to speak, I almost declined. I wasn't sure what I could say to your group since my background is in Systems Analysis and Management. I then noticed the topic--"Management of Declining Resources." I have observed that when resources decline--when times get tough--the corporate comptrollers get more power, and the managers and analysts get fired.-- I think we'd better talk!

Seriously, as I thought over your proposal, I came to feel that there is something important for managers and comptrollers to say to one another. When I look back, for instance, on my days as a systems analyst, I recall that I was always conscious of the fact that, while we were attempting to deal with the broad aspects of a program, conducting trade-offs and evaluating cost-effectiveness, there was always another group simultaneously moving forward with the budget, the Comptrollers. More than that, I often perceived that these two groups were not communicating very often with each other. Even when they did, there were immense differences in their frames of reference, vocabularies, and data bases. Now this relationship of the budgeteer to the programmer is the same as that of the comptroller to the manager.

In the programmer's or the manager's world, the focus is on output--the ultimate mission effectiveness of systems. In the budgeteer's or comptroller's world the focus is on inputs--

the various bits and pieces that add up to an appropriation. Programmers and managers deal in large aggregates of resources; budgeteers and comptrollers deal in the micro-world. Most importantly, the one's thinking is on the future, while the other's is largely on the past. That is, the comptrollers' cost and performance data are historical and his evaluation of a budget is largely based on the deviations from that of a previous year.

This brings me to the central point that I'd like to make today: In an era of declining resources, we in Defense can no longer afford the penalties caused by an insufficient interchange between these two important elements of our management structure. Specifically, the comptroller should be, and probably is, the person best aware of data that is relevant to making decisions on the future. The manager who does not employ this data to the fullest is probably forced into making decisions that are unnecessarily sub-optimal. Thus, my thesis is that the manager and comptroller must jointly develop information structures which will facilitate decision making in their particular organization.

Improving the quality of our decisions is especially important today. For the Navy, at least, the past several years have been ones of reduced purchasing power and dramatic reductions in combat forces. We continue to face growth in the cost of both manpower and weapons systems. We also face increasing technical and political complexity in our operating environments. These trends are ones with which we will likely

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have to learn to live. It is, I believe, in times of declining real resources that effective decision making is of utmost importance. To borrow a phrase from the organizational theorists, such periods are the ones in which organizational slack--those inefficiencies and frills that grow in a large organization during times of prosperity--must be eliminated. Any shortcomings in the manager-comptroller partnership represent to me significant organizational slack.

Let's look at why this manager-comptroller partnership has not been fully realized. I want to raise a few points not in criticism of the manager or of the comptroller, but rather to suggest necessary directions for change. In fact, if any fault is to be assigned, a large share must go to the manager who fails to understand and develop the assistance available to him from the comptroller.

The first problem I would like to raise stems from the fact that the emphasis of accounting data has been primarily on liability. Our recent Navy difficulties in our MPN account, with which you are all familiar, are just the sort of thing that has led military line managers to ask only that their comptrollers keep them out of trouble.

As a result of this kind of emphasis on liability, the comptroller frequently relegates management control and planning to a secondary role. Those few elements of data that a top manager should see are not carefully chosen because both the

manager and the comptroller are oriented to insuring that nothing is missing. This inevitably leads to an overkill in presentation of data. Unfortunately, what frequently is missing is the manager's ability to spot potential problems. Computerization has, of course, added to this problem: just because we can now manipulate and present vast quantities of data, we do it, whether we can utilize the data or not. Technology rather than requirements is driving the system.

The second problem, I would like to suggest, is the failure of many comptrollers to become sufficiently involved in the trade-off decisions necessary to the manager. We all know how many separate appropriation accounts enter into the management of any single Defense program. Complex accounting systems can be useful and necessary, but they can also have unfortunate dysfunctional effects. For instance, often a manager is not aware of the full costs of his decisions, simply because he is unable to get a clear picture of where to locate all the costs, or of the interrelationships among cost elements. Anyone who has grappled with the problems of reducing the costs of support, for example, cannot help being aware of these problems.

Thus, the comptroller must become a more active player in the management function. He also must direct more attention to carefully and wisely structuring his accounts with decision

making in mind. Not only is the old caution about not mixing apples and oranges relevant, but also the caution of keeping the apple together with its skin and core. I would suggest that a review of our financial accounts with decision making foremost in mind is in order today.

A third problem area is our frequent failure to emphasize accurate forecasts of key financial data. The forecasting done is often the simplest sort of extrapolation; it does not take advantage of the powerful statistical techniques that are available today. A manager, operating as he does in an environment of uncertainty, depends heavily on such forecasts being accurate enough to alert him to upcoming problems.

The fourth problem I perceive that requires the active cooperation of the comptroller and manager relates to devising

performance measures. These can give correct incentives to a manager and to his organization. Too often, decision makers respond to variables that can be quantified rather than those that are important. Too often they answer to measures of short-term performance rather than long-term. Also, all too often, the manager responds only to the measures relating to his own part of the organization, and not to ones of wider importance. It is imperative that performance measures be derived which focus on our true organizational objectives, which go beyond the particular office the manager is in, and which look past his term in that billet.

One simple example of problems like these can be found in our various inventory management accounts. In some cases, existing incentives induce a supply manager to scrap a component and buy a new one for which his own accounts are not charged, rather than fix the component by buying the cheaper bits-and-pieces which are needed, but for which his accounts are charged. Even more damaging are the problems created by incompatibilities of incentives. A design manager will worry about the procurement cost of his product. He will seldom think of the financial impact of his decisions on the inventory and maintenance managers, let alone on operational readiness. Those are but two examples; I am sure you can all think of more. Now I believe that we all understand the problem, but I do not claim to know the solution. This is the major challenge I would like to leave with you today. How can you as comptrollers help to provide incentives toward efficient behavior? How can you define and exercise your role to focus on the achievement of

our organizational goals rather than solely on day-to-day error avoidance? To do this you will certainly have to step beyond the traditional accounting role of the comptroller.

In sum, the four critical problems I have suggested to you are; over-emphasis by both managers and comptrollers on liability, failure to structure accounts for decision making, poor financial forecasting, and improperly structured incentives.

At the Naval War College, we are attempting to help in these problem areas. How do we do this? Two years ago, we made some rather sweeping changes in the curriculum. One of the new courses we instituted is entitled "Defense Economics and Decision Making." Traditionally, the course had been centered on giving the students a broad picture of the world of international relations. There was a long overdue need to teach these officers how to translate broad policy into specific decisions on allocating resources.

Thus, we increased this portion of the curriculum significantly. Our objective here is to turn out managers who will understand the importance of utilizing every tool which comptrollers or systems analysts or anyone else has available. It is truly surprising how naive our average student is about decision making at this level. Mind you, they are an exceptional lot with 8 to 18 years of service. They are top quality representatives from each of our services, including the Coast Guard. We also have representatives of corresponding grades from the civilian components of the Defense Department. Each year there are approximately 465 students enrolled. ^P It is also

surprising to me the number who think major resource decisions are black and white. Perhaps I should not be surprised. After all, most of our students come from the operating forces, where decisions are right or wrong. All decisions of this type must be expressed with an air of authority; there can be no ambiguity. The key to our approach is to recognize how much uncertainty exists in the decision making process, even in the costs provided by a comptroller, the measures of output provided by your analysts, the broad objectives of a strategists, etc. How do we do this? We have divided the ^{Defense} Economics course into three phases: First, the students look at the broad strategy objectives for the Navy. We ask; are we fulfilling them? If not, is it due to poor allocation of resources? We must know where we are supposed to be headed, if we are to measure progress. Second, we concentrate on how we make decisions on resource allocation. We strive to make the student appreciate the problem of establishing alternatives, then weighing them and making a decision. In doing this, we give them a good dose of quantitative techniques.

Our approach to quantitative methods is to develop the student's abilities as a customer for analysis rather than as a practitioner. We expose him to the concepts and principles of micro-economics and decision theory, but from the viewpoint of developing his ability first to structure a management problem for analysis, and second to interpret the results presented to him by an analyst. We emphasize the utility of this form

of analysis in providing an intellectual framework for addressing difficult problems, but caution against over-enthusiasm for analyses which are exclusively quantitative.

Third and finally, we emphasize that the greatest decision ever made is of no value if we cannot get it carried out, if we cannot follow it through to implementation. We teach that major Defense decisions must reflect political reality if they are to be implemented; that they must also reflect the nature of the bureaucratic system in which we operate; and that they must be cognizant of a viable relationship with industry. In short, there's no value in making a rational and optimal decision if you cannot get Congress to provide the funds or the public to support you; if you cannot get your own bureaucracy to carry out your decision; and if you cannot get industry to produce at a price near your estimate and on schedule.

How do we walk our students through this process? Primarily by making them work through it for themselves. We avoid spoon-feeding it to them in lectures. We do have formal classroom instruction in quantitative methods and in the theory of organizational behavior. The core of the course, however, is case studies of major defense decisions. Here the student is basically on his own. We give him a lot of reading to do, some of it theory, some of it factual. He then must work out his own solutions. He has specific homework assignments; he is grilled in his seminar meetings; and he has written examinations where he must present solutions to hypothetical case

problems. To the maximum extent possible, we design our case studies to have all the messiness, all the multiplicity of alternatives, and all of the interacting influences which a real manager faces in any decision of consequence. In short, we view our case studies as an apprenticeship in decision making for our students. As I am sure many of you who have been exposed to the case study method will realize, we have an insatiable continuing need for fresh case materials and I would appreciate any materials that you may have in your files.

In the end, we hope that this part of our War College course will make the students better able to approach the kind of problems that you face daily. They will not be up to speed on all of the latest procedures or jargon of PPBS. They will not have reviewed many of the current issues being discussed here in Washington or elsewhere. That would be training not education, and of only short term benefit. We do believe that they will be well equipped to pick up the jargon and the details of current problems when they get to future assignments, and then can march off in a sensible manner. In short, we are playing for the longer term by developing habits of thinking rather than filling students with facts and data.

Part of all this, we hope, will be a recognition of the importance of an active partnership between the manager and the comptroller. We want the students to see that only by having the correct financial inputs can the manager accomplish the trade-offs essential to his decision making. It should

be clear to them as prospective managers that it is the comptroller who is best able to provide many of the inputs. The students must recognize that top managers must turn to their comptroller in selecting the key pieces of management control data which they require; for providing the right cost data to be used in making trade-offs; for providing good forecasts relevant to the problems raised and the options open; and for devising and monitoring incentives relevant to the program being managed.

This, then, is the partnership that I view as a necessity in the evolution of our defense organization. The manager must include the comptroller as an important part of his decision and control team. The comptroller must expand his responsibilities beyond concentrating on past accountability. In this way, I believe, we can achieve the type of decision making that is necessary in our military establishment today.

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DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON, D.C. 20350

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Ser 74-S-45
24 June 1974

From: Chief of Naval Operations
To: President, Naval War College

Subj: Material submitted for security review; Return of

Ref: (a) Your ltr

Encl: (1) Article: The Manager and the Comptroller

1. As requested by reference (a), enclosure (1) has been reviewed for military security, factual accuracy and established policy and is returned,

- ☐ Cleared for open publication
- ☒ Cleared for open publication as amended
- ☐ Not cleared for open publication for the following reason(s):

F. A. Brown
F. A. BROWN
By direction

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CLEARED AS AMENDED
FOR OPEN PUBLICATION

JUN 18 1974 10

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P/← Third and finally, we emphasize that the greatest decision ever made is of no value if we cannot get it carried out, if we cannot follow it through to implementation. We teach that major Defense decisions must reflect political reality if they are to be implemented; that they must also reflect the nature of the bureaucratic system in which we operate; and that they must be cognizant of a viable relationship with industry.

In short, there's no value in making a rational and optimal decision.

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THE MANAGER AND COMPTROLLER: A NECESSARY PARTNERSHIP

WHEN I FIRST RECEIVED YOUR INVITATION TO SPEAK HERE TODAY, I MUST ADMIT THAT I WAS TEMPTED TO DECLINE. THE WORLD OF THE COMPTROLLER IS ONE THAT I HAVE VIEWED ONLY FROM AFAR. LIKE MANY LINE OFFICERS, I DO NOT PRETEND TO HAVE ANY GREAT DEPTH OF UNDERSTANDING OF HOW YOU ACCOMPLISH YOUR JOB.

AS I THOUGHT OVER YOUR PROPOSAL, HOWEVER, I CAME TO FEEL THAT WE HAVE SOMETHING OF IMPORTANCE TO SAY TO ONE ANOTHER. I WAS INVOLVED FOR SOME YEARS HERE IN WASHINGTON IN THE WORLD OF THE DEFENSE PROGRAMS, BOTH AS DIRECTOR OF THE NAVY'S SYSTEMS ANALYSIS DIVISION AND BEFORE THAT IN THE OFFICE OF OSD SYSTEMS ANALYSIS.

DURING THAT TIME, I WAS ALWAYS CONSCIOUS OF THE FACT THAT WHILE WE WERE ATTEMPTING TO DEAL WITH THE LARGE AGGREGATES OF THE PROGRAM, CONDUCTING TRADE-OFFS AND EVALUATING COST-EFFECTIVENESS, ANOTHER GROUP WAS SIMULTANEOUSLY MOVING FORWARD WITH THE BUDGET. STRANGELY, I PERCEIVED THAT NEITHER GROUP COMMUNICATED VERY OFTEN WITH THE OTHER, AND, WHEN THEY DID, THE IMMENSE DIFFERENCES IN THEIR FRAMES OF REFERENCES, VOCABULARIES, AND DATA BASES MADE MEANINGFUL COMMUNICATION NEARLY IMPOSSIBLE.

THIS LED ME TO REFLECT ON THE ROLE OF THE COMPTROLLER IN DEFENSE MANAGEMENT BECAUSE OF THE ANALOGY BETWEEN THE

RELATIONSHIP OF THE COMPTROLLER TO THE MANAGER AND THAT OF THE BUDGETEER AND THE PROGRAMMER. LET ME EXPLORE THE DIFFERENCES I PERCEIVED IN THE ROLES OF THE PROGRAMMER AND BUDGETEER A BIT FURTHER. IN THE PROGRAMMING WORLD, OUR FOCUS WAS ON OUTPUT--THE ULTIMATE MISSION EFFECTIVENESS OF SYSTEMS. THE BUDGETEER WAS CONCERNED WITH INPUTS--THE VARIOUS BITS AND PIECES THAT ADDED UP TO AN APPROPRIATION. PROGRAMMERS DEAL IN LARGE AGGREGATES OF RESOURCES; THE BUDGETEER DEAL IN MICRO-DETAIL. MOST IMPORTANTLY, THE PROGRAMMER'S THINKING WAS ON THE FUTURE, WHILE THE BUDGETEER LOOKED CONSTANTLY TO THE PAST FOR HIS COST DATA AND HIS PERFORMANCE DATA. EVEN HIS EVALUATION OF A BUDGET WAS ALMOST TOTALLY BASED ON THE DEGREE TO WHICH IT DEVIATED FROM THAT OF A PREVIOUS YEAR. THESE SAME DIFFERENCES EXIST, I BELIEVE, IN THE ORIENTATIONS OF THE MANAGER AND THE COMPTROLLER.

THIS BRINGS ME TO THE CENTRAL POINT I'D LIKE TO MAKE TODAY: THE NAVY CAN NO LONGER AFFORD TO PAY THE PENALTIES CAUSED BY AN INSUFFICIENT INTERCHANGE BETWEEN THESE TWO IMPORTANT ELEMENTS OF ITS MANAGEMENT STRUCTURE. SPECIFICALLY, THE COMPTROLLER SHOULD BE, AND PROBABLY IS, THE PERSON BEST AWARE OF THE DATA THAT IS RELEVANT TO MAKING DECISIONS THAT ARE FUTURE ORIENTED, AND THE MANAGER WHO DOES NOT EMPLOY THIS DATA TO THE FULLEST POSSIBLE EXTENT IS PROBABLY FORCED

INTO MAKING DECISIONS OF UNNECESSARILY LOW QUALITY. THUS, MY THESIS IS THAT THE MANAGER AND COMPTROLLER MUST JOINTLY DEVELOP INFORMATION STRUCTURES WHICH WILL FACILITATE DECISION MAKING IN THEIR PARTICULAR ORGANIZATION.

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THE FOURTH PROBLEM I PERCEIVE THAT REQUIRES THE ACTIVE COOPERATION OF THE COMPTROLLER AND MANAGER RELATES TO THE CHALLENGE OF DEVISING PERFORMANCE MEASURES THAT GIVE CORRECT INCENTIVES TO A MANAGER AND HIS ORGANIZATION. TOO OFTEN, DECISION MAKERS RESPOND TO VARIABLES THAT CAN BE QUANTIFIED RATHER THAN THOSE THAT ARE IMPORTANT AND TO MEASURE OF SHORT-TERM PERFORMANCE RATHER THAN LONG-TERM. ALSO ALL TOO OFTEN, THE MANAGER RESPONDS ONLY TO THE MEASURES RELATING TO HIS OWN ORGANIZATION, AND NOT TO ONES OF WIDER IMPORTANCE. IT IS IMPERATIVE THAT PERFORMANCE MEASURES BE DERIVED THAT FOCUS ON OUR TRUE ORGANIZATIONAL OBJECTIVES, THAT GO BEYOND THE PARTICULAR OFFICE THE MANAGER IS IN, AND THAT GO BEYOND HIS TERM IN THAT BILLET. A SIMPLE EXAMPLE OF PROBLEMS LIKE THESE CAN BE FOUND IN OUR VARIOUS INVENTORY MANAGEMENT ACCOUNTS. IN SOME CASES, EXISTING INCENTIVES INDUCE A SUPPLY MANAGER TO SCRAP A COMPONENT AND BUY A NEW ONE, FOR WHICH HIS OWN ACCOUNTS ARE NOT CHARGED, RATHER THAN BUY THE CHEAPER BITS-AND-PIECES NEEDED TO FIX IT, FOR WHICH HIS ACCOUNTS ARE CHARGED. EVEN MORE DAMAGING ARE THE PROBLEMS CREATED BY THE INCOMPATIBILITY OF INCENTIVES. THE DESIGN MANAGER HAS HIS OWN FUNDING PROBLEMS TO WORRY ABOUT AND PROBABLY SELDOM THINKS OF THE FINANCIAL IMPACT AS WELL AS THE IMPACT ON READINESS, OF HIS DECISIONS ON THE INVENTORY AND MAINTENANCE MANAGER. THE SOLUTION TO SUCH PROBLEMS AGAIN REQUIRES THAT WE STEP BEYOND THE TRADITIONAL ACCOUNTING ROLE OF THE COMPTROLLER.

THE FOUR CHALLENGES I HAVE PRESENTED TO YOU AS COMPTROLLERS ARE FOUR THAT WE PRESENT TO OUR STUDENTS IN THE DEFENSE ECONOMICS AND DECISION MAKING COURSE AT THE NAVAL WAR COLLEGE. THIS COURSE FOCUSES ON THE PROBLEMS ASSOCIATED WITH THE ALLOCATION OF OUR LIMITED NATIONAL RESOURCES TO DEFENSE PROGRAMS IN A MANNER CONSISTENT WITH OUR NATIONAL GOALS AND STRATEGY. WE ATTEMPT TO PREPARE THE MILITARY MANAGER TO DEAL WITH THE VARIOUS TYPES OF RESOURCE ALLOCATION PROBLEMS THAT HE WILL BE CONFRONTED WITH AS HE ADVANCES TO SENIOR DECISION-MAKING POSITIONS. OUR OBJECTIVES ARE TO ASSIST THE MANAGER IN DEVELOPING TOOLS IN THREE PRINCIPAL AREAS: PROBLEM DEFINITION, DECISION MAKING, AND IMPLEMENTATION. WE ADDRESS THE OBJECTIVES AND MISSIONS OF THE NAVY IN THE CONTEXT OF BROAD MILITARY STRATEGY IN ORDER TO DEVELOP THE MANAGER'S ABILITY TO LOCATE AREAS IN WHICH THESE GOALS ARE NOT BEING MET, AS WELL AS TO DEVELOP HIS SKILL IN ASCERTAINING THE REASONS BEHIND SUCH FAILINGS. THE PROCESS OF RATIONAL CHOICE AMONG THE ALTERNATIVE WAYS OF ACCOMPLISHING OUR MISSIONS AND OBJECTIVES IS GIVEN HEAVY EMPHASIS IN THE COURSE. FINALLY, WE EXAMINE THE WAYS IN WHICH ORGANIZATIONAL STRUCTURE AND CONTROL CAN ASSIST THE DEFENSE MANAGER IN MAKING AND IMPLEMENTING DECISIONS.

TO THIS POINT I HAVE ADDRESSED THE COMPTROLLER MANAGER RELATIONSHIP AS I SEE IT. NOW LET ME ELABORATE SOMEWHAT ON

THE ROLE OF THE MILITARY OFFICER AS DEFENSE MANAGER AND ON THE PROGRAM WE HAVE DEVELOPED AT THE WAR COLLEGE TO IMPART THE SKILLS NEEDED TO EFFECTIVELY DISCHARGE THAT ROLE.

THE COURSE IS TRULY MULTI-DISCIPLINARY AND I THINK WE HAVE BEEN MORE SUCCESSFUL IN ACHIEVING A BLEND OF ACADEMIC DISCIPLINES THAN HAVE THE MORE TRADITIONAL INSTITUTIONS. WITHIN OUR MANAGEMENT DEPARTMENT WE HAVE PROFESSIONALS IN THE FIELDS OF ECONOMICS, OPERATIONS RESEARCH, PSYCHOLOGY, ORGANIZATION THEORY AND POLITICAL SCIENCE. WE TEACH SYSTEMS ANALYSIS AND THE USES OF QUANTITATIVE METHODS IN DEFENSE PROBLEMS BUT WE ALSO EMPHASIZE THAT MAJOR DEFENSE DECISIONS TYPICALLY INVOLVE MORE THAN THE PURELY QUANTITATIVE. THEY MUST ALSO REFLECT POLITICAL REALITY AND IF THEY ARE TO BE IMPLEMENTED THEY MUST REFLECT THE NATURE OF THE BUREAUCRATIC SYSTEM WITHIN WHICH WE LIVE. A SUCCESSFUL MILITARY MANAGER MUST UNDERSTAND THE INCENTIVE STRUCTURE OF HIS ORGANIZATION AND OF THOSE WITH WHOM HE WILL INTERACT BOTH IN GOVERNMENT AND IN INDUSTRY.

THE STRUCTURE OF THE COURSE IS ALSO I BELIEVE UNIQUE THOUGH I UNDERSTAND A SIMILAR APPROACH IS BEING DEVELOPED AT THE UNIVERSITY OF MICHIGAN. THE STUDENT IS EXPOSED TO THREE SIMULTANEOUS STREAMS OF INSTRUCTION. HE RECEIVES FORMAL CLASSROOM INSTRUCTION IN QUANTITATIVE METHODS AND IN THEORY OF ORGANIZATIONAL BEHAVIOR AND IN SEMINAR ENGAGES IN A SERIES OF CASE STUDIES RELATING TO MAJOR DEFENSE DECISIONS.

OUR APPROACH TO QUANTITATIVE METHODS IS TO DEVELOP THE STUDENT'S ABILITIES AS A CUSTOMER FOR ANALYSIS RATHER THAN AS A PRACTITIONER. WE EXPOSE HIM TO THE CONCEPTS AND PRINCIPLES OF MICRO-ECONOMICS AND DECISION THEORY BUT FROM THE VIEWPOINT OF DEVELOPING HIS ABILITY TO STRUCTURE A MANAGEMENT PROBLEM FOR ANALYSIS AND INTERPRETING THE RESULTS PRESENTED TO HIM BY THE ANALYST. WE EMPHASIZE THE UTILITY OF THIS FORM OF ANALYSIS IN PROVIDING AN INTELLECTUAL FRAMEWORK FOR ADDRESSING DIFFICULT PROBLEMS BUT CAUTION AGAINST OVER-ENTHUSIASM FOR ANALYSES WHICH ARE EXCLUSIVELY QUANTITATIVE.

IN OUR COURSE IN ORGANIZATIONAL BEHAVIOR THE APPROACH IS AGAIN PRAGMATIC. WE WANT OUR STUDENTS TO DEVELOP AN AWARENESS AND UNDERSTANDING OF THE HUMAN FACTOR IN THE MANAGEMENT EQUATION BUT FROM THE POINT OF VIEW OF GETTING THINGS DONE. WE TEACH THE MODERN VIEW OF GOALS INCENTIVES AND PERCEPTIONS OF PEOPLE IN LARGE ORGANIZATIONS WITH A VIEW TO DEVELOPING SKILL IN CAUSING A BUREAUCRACY SUCH AS OURS TO RESPOND AS WE WOULD WISH IT TO IN EXECUTING OUR PROGRAMS.

IN OUR CASE STUDIES WE TRY TO BRING IT ALL TOGETHER. OUR CASES ALL ADDRESS MAJOR MANAGERIAL DECISIONS. THEY ARE NOT DESIGNED MERELY AS EXAMPLES OF THE APPLICATION OF THEORY OR CANNED HOMEWORK PROBLEMS. THEY DO PROVIDE AN OPPORTUNITY FOR THE STUDENT TO DRAW ON MATERIALS FROM HIS OTHER COURSES BUT THEY ARE STRUCTURED SO THAT THIS CAN ONLY TAKE HIM PART WAY HOME. IN SHORT TO THE MAXIMUM EXTENT POSSIBLE WE DESIGN

CASES WHICH HAVE ALL OF THE MESSINESS AND MULTIPLICITY OF ALTERNATIVES AND INTERACTING INFLUENCES WHICH A REAL MANAGER FACES IN ANY DECISION OF CONSEQUENCE. IN SHORT, WE VIEW OUR CASE STUDIES AS AN APPRENTICESHIP IN DECISION MAKING FOR OUR STUDENTS.

AS I AM SURE MANY OF YOU WHO HAVE BEEN EXPOSED TO THE CASE STUDY METHOD WILL REALIZE WE HAVE AN INSATIABLE CONTINUING NEED FOR FRESH CASE MATERIALS AND I WOULD APPRECIATE ANY MATERIALS THAT YOU MAY HAVE IN YOUR FILES.

NOW IT IS A TRUISM OF TEACHING THAT THE TEACHER LEARNS MORE THAN THE STUDENT. IN DESIGNING OUR COURSE AND IN EXPOSING OUR IDEAS TO FOUR CLASSES OF INTELLECTUALLY AGGRESSIVE AND DEMANDING STUDENTS WE HAVE BEEN FORCED TO THINK THROUGH THE PROBLEMS OF DEFENSE MANAGEMENT WITH MORE RIGOR AND IN GREATER DEPTH THAN WE EVER HAVE THE OPPORTUNITY TO DO WHEN WE HAVE LINE MANAGEMENT RESPONSIBILITIES. I HAVE COME TO THE CONCLUSION AFTER THESE TWO YEARS THAT THERE IS ONE VITAL AREA OF MANAGEMENT WHICH WE HAVE OVERLOOKED OR INSUFFICIENTLY ADDRESSED IN THE PAST AND WHICH WE MUST COME TO GRIPS WITH IF WE ARE TO BECOME EFFECTIVE MANAGERS IN THE FUTURE. THAT AREA IS THE INCENTIVE STRUCTURE WE HAVE BUILT INTO OUR SYSTEM AND IT APPLIES EQUALLY TO THE MILITARY AND TO THE CIVILIAN COMPONENTS OF OUR SERVICE.

THINK OF ANY OF OUR PRACTICES THAT DO NOT SEEM TO MAKE SENSE AND THEN ASK YOURSELF, WHAT WAS THE INCENTIVE OF THE MAN IN CHARGE?

WHY DO WE DESIGN A NEW RADIO FOR EVERY NEW AIRCRAFT WE PROCURE? IS IT BECAUSE WE NEED IT OR ARE WE REWARDING OUR RADIO DESIGNERS WHENEVER THEY CAUSE US TO BUY A NEW DESIGN?

WHY IS IT WE SO OFTEN SACRIFICE RELIABILITY AND MAINTAINABILITY OF NEW SYSTEMS IN ORDER TO MEET FLEET INTRODUCTION SCHEDULES? COULD IT BE BECAUSE WE REWARD AND PROMOTE OUR PROJECT MANAGERS FOR MEETING SUCH SCHEDULES BUT DO NOT HOLD THEM ACCOUNTABLE FOR SUBSEQUENT READINESS.

THOSE ARE BUT TWO EXAMPLES AND I AM SURE YOU CAN ALL THINK OF MORE. NOW I BELIEVE THAT WE UNDERSTAND THE PROBLEM BUT I DO NOT CLAIM TO KNOW THE SOLUTION. THIS IS THE MAJOR CHALLENGE I WOULD LIKE TO LEAVE WITH YOU TODAY. HOW CAN YOU AS COMPTROLLERS ACT SO AS TO PROVIDE INCENTIVES TOWARDS EFFICIENT BEHAVIOR? HOW CAN YOU DEFINE AND EXERCISE YOUR ROLE SO AS TO FOCUS MORE ON THE ACHIEVEMENT OF OUR ORGANIZATIONAL GOALS RATHER THAN SOLELY ON DAY-TO-DAY ERROR AVOIDANCE.

FINALLY, I HOPE THAT OUR TEACHING AT THE WAR COLLEGE WILL ACCENT TO OUR STUDENTS THE IMPORTANCE OF AN ACTIVE PARTNERSHIP BETWEEN THE MANAGER AND THE COMPTROLLER. WE WANT THEM TO SEE THAT ONLY BY HAVING THE CORRECT FINANCIAL INPUTS CAN THE MANAGER ACCOMPLISH HIS FUNCTION. WE DO REVIEW WITH THEM THE INCREASINGLY SOPHISTICATED TECHNIQUES AVAILABLE FOR RESOURCE MANAGEMENT TODAY, BUT POINT OUT THAT THEY ARE ONLY AS GOOD AS THE INPUTS TO THEM. IT SHOULD BE CLEAR TO THEM AS PROSPECTIVE MANAGERS THAT IT IS THE COMPTROLLER WHO IS BEST ABLE TO

PROVIDE MANY OF THESE INPUTS. THEY MUST RECOGNIZE THAT TOP MANAGERS MUST TURN TO THEIR COMPTROLLER IN SELECTING THE KEY PIECES OF MANAGEMENT CONTROL DATA WHICH HE REQUIRES; AND FOR PROVIDING THE RIGHT COST DATA TO BE USED IN MAKING TRADE-OFFS; AND FOR PROVIDING GOOD FORECASTS WHICH CAN BE INTERPRETED IN TERMS OF THE PROBLEMS RAISED AND THE OPTIONS OPEN; AND FOR DEVISING AND MONITORING PERFORMANCE MEASURES RELEVANT TO THE PROGRAM BEING MANAGED.

THIS THEN IS THE PARTNERSHIP THAT I VIEW AS A NECESSITY IN THE EVOLUTION OF OUR DEFENSE ORGANIZATIONS. THE MANAGER MUST INCLUDE THE COMPTROLLER AS AN IMPORTANT PART OF HIS DECISION AND CONTROL TEAM, AND THE COMPTROLLER MUST EXPAND HIS RESPONSIBILITIES BEYOND CONCENTRATING ON PAST ACCOUNTABILITY. IN THIS WAY, I BELIEVE, WE CAN ACHIEVE THE TYPE OF DECISION-MAKING IN THE MILITARY THAT IS NECESSARY TODAY.

THANK YOU

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THE MANAGER AND COMPTROLLER: A NECESSARY PARTNERSHIP

WHEN I FIRST RECEIVED YOUR INVITATION TO SPEAK HERE TODAY, I MUST ADMIT THAT I WAS TEMPTED TO DECLINE. THE WORLD OF THE COMPTROLLER IS ONE THAT I HAVE VIEWED ONLY FROM AFAR. LIKE MANY LINE OFFICERS, I DO NOT PRETEND TO HAVE ANY GREAT DEPTH OF UNDERSTANDING OF HOW YOU ACCOMPLISH YOUR JOB.

AS I THOUGHT OVER YOUR PROPOSAL, HOWEVER, I CAME TO FEEL THAT WE HAVE SOMETHING OF IMPORTANCE TO SAY TO ONE ANOTHER. I WAS INVOLVED FOR SOME YEARS HERE IN WASHINGTON IN THE WORLD OF THE DEFENSE PROGRAMS, BOTH AS DIRECTOR OF THE NAVY'S SYSTEMS ANALYSIS DIVISION AND BEFORE THAT IN THE OFFICE OF OSD SYSTEMS ANALYSIS.

DURING THAT TIME, I WAS ALWAYS CONSCIOUS OF THE FACT THAT WHILE WE WERE ATTEMPTING TO DEAL WITH THE LARGE AGGREGATES OF THE PROGRAM, CONDUCTING TRADE-OFFS AND EVALUATING COST-EFFECTIVENESS, ANOTHER GROUP WAS SIMULTANEOUSLY MOVING FORWARD WITH THE BUDGET. STRANGELY, I PERCEIVED THAT NEITHER GROUP COMMUNICATED VERY OFTEN WITH THE OTHER, AND, WHEN THEY DID, THE IMMENSE DIFFERENCES IN THEIR FRAMES OF REFERENCES, VOCABULARIES, AND DATA BASES MADE MEANINGFUL COMMUNICATION NEARLY IMPOSSIBLE.

THIS LED ME TO REFLECT ON THE ROLE OF THE COMPTROLLER IN DEFENSE MANAGEMENT BECAUSE OF THE ANALOGY BETWEEN THE

RELATIONSHIP OF THE COMPTROLLER TO THE MANAGER AND THAT OF THE BUDGETEER AND THE PROGRAMMER. LET ME EXPLORE THE DIFFERENCES I PERCEIVED IN THE ROLES OF THE PROGRAMMER AND BUDGETEER A BIT FURTHER. IN THE PROGRAMMING WORLD, OUR FOCUS WAS ON OUTPUT--THE ULTIMATE MISSION EFFECTIVENESS OF SYSTEMS. THE BUDGETEER WAS CONCERNED WITH INPUTS--THE VARIOUS BITS AND PIECES THAT ADDED UP TO AN APPROPRIATION. PROGRAMMERS DEAL IN LARGE AGGREGATES OF RESOURCES; THE BUDGETEER DEAL IN MICRO-DETAIL. MOST IMPORTANTLY, THE PROGRAMMER'S THINKING WAS ON THE FUTURE, WHILE THE BUDGETEER LOOKED CONSTANTLY TO THE PAST FOR HIS COST DATA AND HIS PERFORMANCE DATA. EVEN HIS EVALUATION OF A BUDGET WAS ALMOST TOTALLY BASED ON THE DEGREE TO WHICH IT DEVIATED FROM THAT OF A PREVIOUS YEAR. THESE SAME DIFFERENCES EXIST, I BELIEVE, IN THE ORIENTATIONS OF THE MANAGER AND THE COMPTROLLER.

THIS BRINGS ME TO THE CENTRAL POINT I'D LIKE TO MAKE TODAY: THE NAVY CAN NO LONGER AFFORD TO PAY THE PENALTIES CAUSED BY AN INSUFFICIENT INTERCHANGE BETWEEN THESE TWO IMPORTANT ELEMENTS OF ITS MANAGEMENT STRUCTURE. SPECIFICALLY, THE COMPTROLLER SHOULD BE, AND PROBABLY IS, THE PERSON BEST AWARE OF THE DATA THAT IS RELEVANT TO MAKING DECISIONS THAT ARE FUTURE ORIENTED, AND THE MANAGER WHO DOES NOT EMPLOY THIS DATA TO THE FULLEST POSSIBLE EXTENT IS PROBABLY FORCED

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THE FOUR CHALLENGES I HAVE PRESENTED TO YOU AS COMPTROLLERS ARE FOUR THAT WE PRESENT TO OUR STUDENTS IN THE DEFENSE ECONOMICS AND DECISION MAKING COURSE AT THE NAVAL WAR COLLEGE. THIS COURSE FOCUSES ON THE PROBLEMS ASSOCIATED WITH THE ALLOCATION OF OUR LIMITED NATIONAL RESOURCES TO DEFENSE PROGRAMS IN A MANNER CONSISTENT WITH OUR NATIONAL GOALS AND STRATEGY. WE ATTEMPT TO PREPARE THE MILITARY MANAGER TO DEAL WITH THE VARIOUS TYPES OF RESOURCE ALLOCATION PROBLEMS THAT HE WILL BE CONFRONTED WITH AS HE ADVANCES TO SENIOR DECISION-MAKING POSITIONS. OUR OBJECTIVES ARE TO ASSIST THE MANAGER IN DEVELOPING TOOLS IN THREE PRINCIPAL AREAS: PROBLEM DEFINITION, DECISION MAKING, AND IMPLEMENTATION. WE ADDRESS THE OBJECTIVES AND MISSIONS OF THE NAVY IN THE CONTEXT OF BROAD MILITARY STRATEGY IN ORDER TO DEVELOP THE MANAGER'S ABILITY TO LOCATE AREAS IN WHICH THESE GOALS ARE NOT BEING MET, AS WELL AS TO DEVELOP HIS SKILL IN ASCERTAINING THE REASONS BEHIND SUCH FAILINGS. THE PROCESS OF RATIONAL CHOICE AMONG THE ALTERNATIVE WAYS OF ACCOMPLISHING OUR MISSIONS AND OBJECTIVES IS GIVEN HEAVY EMPHASIS IN THE COURSE. FINALLY, WE EXAMINE THE WAYS IN WHICH ORGANIZATIONAL STRUCTURE AND CONTROL CAN ASSIST THE DEFENSE MANAGER IN MAKING AND IMPLEMENTING DECISIONS.

TO THIS POINT I HAVE ADDRESSED THE COMPTROLLER MANAGER RELATIONSHIP AS I SEE IT. NOW LET ME ELABORATE SOMEWHAT ON

THE ROLE OF THE MILITARY OFFICER AS DEFENSE MANAGER AND ON THE PROGRAM WE HAVE DEVELOPED AT THE WAR COLLEGE TO IMPART THE SKILLS NEEDED TO EFFECTIVELY DISCHARGE THAT ROLE.

THE COURSE IS TRULY MULTI-DISCIPLINARY AND I THINK WE HAVE BEEN MORE SUCCESSFUL IN ACHIEVING A BLEND OF ACADEMIC DISCIPLINES THAN HAVE THE MORE TRADITIONAL INSTITUTIONS. WITHIN OUR MANAGEMENT DEPARTMENT WE HAVE PROFESSIONALS IN THE FIELDS OF ECONOMICS, OPERATIONS RESEARCH, PSYCHOLOGY, ORGANIZATION THEORY AND POLITICAL SCIENCE. WE TEACH SYSTEMS ANALYSIS AND THE USES OF QUANTITATIVE METHODS IN DEFENSE PROBLEMS BUT WE ALSO EMPHASIZE THAT MAJOR DEFENSE DECISIONS TYPICALLY INVOLVE MORE THAN THE PURELY QUANTITATIVE. THEY MUST ALSO REFLECT POLITICAL REALITY AND IF THEY ARE TO BE IMPLEMENTED THEY MUST REFLECT THE NATURE OF THE BUREAUCRATIC SYSTEM WITHIN WHICH WE LIVE. A SUCCESSFUL MILITARY MANAGER MUST UNDERSTAND THE INCENTIVE STRUCTURE OF HIS ORGANIZATION AND OF THOSE WITH WHOM HE WILL INTERACT BOTH IN GOVERNMENT AND IN INDUSTRY.

THE STRUCTURE OF THE COURSE IS ALSO I BELIEVE UNIQUE THOUGH I UNDERSTAND A SIMILAR APPROACH IS BEING DEVELOPED AT THE UNIVERSITY OF MICHIGAN. THE STUDENT IS EXPOSED TO THREE SIMULTANEOUS STREAMS OF INSTRUCTION. HE RECEIVES FORMAL CLASSROOM INSTRUCTION IN QUANTITATIVE METHODS AND IN THEORY OF ORGANIZATIONAL BEHAVIOR AND IN SEMINAR ENGAGES IN A SERIES OF CASE STUDIES RELATING TO MAJOR DEFENSE DECISIONS.

OUR APPROACH TO QUANTITATIVE METHODS IS TO DEVELOP THE STUDENT'S ABILITIES AS A CUSTOMER FOR ANALYSIS RATHER THAN AS A PRACTITIONER. WE EXPOSE HIM TO THE CONCEPTS AND PRINCIPLES OF MICRO-ECONOMICS AND DECISION THEORY BUT FROM THE VIEWPOINT OF DEVELOPING HIS ABILITY TO STRUCTURE A MANAGEMENT PROBLEM FOR ANALYSIS AND INTERPRETING THE RESULTS PRESENTED TO HIM BY THE ANALYST. WE EMPHASIZE THE UTILITY OF THIS FORM OF ANALYSIS IN PROVIDING AN INTELLECTUAL FRAMEWORK FOR ADDRESSING DIFFICULT PROBLEMS BUT CAUTION AGAINST OVER-ENTHUSIASM FOR ANALYSES WHICH ARE EXCLUSIVELY QUANTITATIVE.

IN OUR COURSE IN ORGANIZATIONAL BEHAVIOR THE APPROACH IS AGAIN PRAGMATIC. WE WANT OUR STUDENTS TO DEVELOP AN AWARENESS AND UNDERSTANDING OF THE HUMAN FACTOR IN THE MANAGEMENT EQUATION BUT FROM THE POINT OF VIEW OF GETTING THINGS DONE. WE TEACH THE MODERN VIEW OF GOALS INCENTIVES AND PERCEPTIONS OF PEOPLE IN LARGE ORGANIZATIONS WITH A VIEW TO DEVELOPING SKILL IN CAUSING A BUREAUCRACY SUCH AS OURS TO RESPOND AS WE WOULD WISH IT TO IN EXECUTING OUR PROGRAMS.

IN OUR CASE STUDIES WE TRY TO BRING IT ALL TOGETHER. OUR CASES ALL ADDRESS MAJOR MANAGERIAL DECISIONS. THEY ARE NOT DESIGNED MERELY AS EXAMPLES OF THE APPLICATION OF THEORY OR CANNED HOMEWORK PROBLEMS. THEY DO PROVIDE AN OPPORTUNITY FOR THE STUDENT TO DRAW ON MATERIALS FROM HIS OTHER COURSES BUT THEY ARE STRUCTURED SO THAT THIS CAN ONLY TAKE HIM PART WAY HOME. IN SHORT TO THE MAXIMUM EXTENT POSSIBLE WE DESIGN

CASES WHICH HAVE ALL OF THE MESSINESS AND MULTIPLICITY OF ALTERNATIVES AND INTERACTING INFLUENCES WHICH A REAL MANAGER FACES IN ANY DECISION OF CONSEQUENCE. IN SHORT, WE VIEW OUR CASE STUDIES AS AN APPRENTICESHIP IN DECISION MAKING FOR OUR STUDENTS.

AS I AM SURE MANY OF YOU WHO HAVE BEEN EXPOSED TO THE CASE STUDY METHOD WILL REALIZE WE HAVE AN INSATIABLE CONTINUING NEED FOR FRESH CASE MATERIALS AND I WOULD APPRECIATE ANY MATERIALS THAT YOU MAY HAVE IN YOUR FILES.

NOW IT IS A TRUISM OF TEACHING THAT THE TEACHER LEARNS MORE THAN THE STUDENT. IN DESIGNING OUR COURSE AND IN EXPOSING OUR IDEAS TO FOUR CLASSES OF INTELLECTUALLY AGGRESSIVE AND DEMANDING STUDENTS WE HAVE BEEN FORCED TO THINK THROUGH THE PROBLEMS OF DEFENSE MANAGEMENT WITH MORE RIGOR AND IN GREATER DEPTH THAN WE EVER HAVE THE OPPORTUNITY TO DO WHEN WE HAVE LINE MANAGEMENT RESPONSIBILITIES. I HAVE COME TO THE CONCLUSION AFTER THESE TWO YEARS THAT THERE IS ONE VITAL AREA OF MANAGEMENT WHICH WE HAVE OVERLOOKED OR INSUFFICIENTLY ADDRESSED IN THE PAST AND WHICH WE MUST COME TO GRIPS WITH IF WE ARE TO BECOME EFFECTIVE MANAGERS IN THE FUTURE. THAT AREA IS THE INCENTIVE STRUCTURE WE HAVE BUILT INTO OUR SYSTEM AND IT APPLIES EQUALLY TO THE MILITARY AND TO THE CIVILIAN COMPONENTS OF OUR SERVICE.

THINK OF ANY OF OUR PRACTICES THAT DO NOT SEEM TO MAKE SENSE AND THEN ASK YOURSELF, WHAT WAS THE INCENTIVE OF THE MAN IN CHARGE?

WHY DO WE DESIGN A NEW RADIO FOR EVERY NEW AIRCRAFT WE PROCURE? IS IT BECAUSE WE NEED IT OR ARE WE REWARDING OUR RADIO DESIGNERS WHENEVER THEY CAUSE US TO BUY A NEW DESIGN?

WHY IS IT WE SO OFTEN SACRIFICE RELIABILITY AND MAINTAINABILITY OF NEW SYSTEMS IN ORDER TO MEET FLEET INTRODUCTION SCHEDULES? COULD IT BE BECAUSE WE REWARD AND PROMOTE OUR PROJECT MANAGERS FOR MEETING SUCH SCHEDULES BUT DO NOT HOLD THEM ACCOUNTABLE FOR SUBSEQUENT READINESS.

THOSE ARE BUT TWO EXAMPLES AND I AM SURE YOU CAN ALL THINK OF MORE. NOW I BELIEVE THAT WE UNDERSTAND THE PROBLEM BUT I DO NOT CLAIM TO KNOW THE SOLUTION. THIS IS THE MAJOR CHALLENGE I WOULD LIKE TO LEAVE WITH YOU TODAY. HOW CAN YOU AS COMPTROLLERS ACT SO AS TO PROVIDE INCENTIVES TOWARDS EFFICIENT BEHAVIOR? HOW CAN YOU DEFINE AND EXERCISE YOUR ROLE SO AS TO FOCUS MORE ON THE ACHIEVEMENT OF OUR ORGANIZATIONAL GOALS RATHER THAN SOLELY ON DAY-TO-DAY ERROR AVOIDANCE.

FINALLY, I HOPE THAT OUR TEACHING AT THE WAR COLLEGE WILL ACCENT TO OUR STUDENTS THE IMPORTANCE OF AN ACTIVE PARTNERSHIP BETWEEN THE MANAGER AND THE COMPTROLLER. WE WANT THEM TO SEE THAT ONLY BY HAVING THE CORRECT FINANCIAL INPUTS CAN THE MANAGER ACCOMPLISH HIS FUNCTION. WE DO REVIEW WITH THEM THE INCREASINGLY SOPHISTICATED TECHNIQUES AVAILABLE FOR RESOURCE MANAGEMENT TODAY, BUT POINT OUT THAT THEY ARE ONLY AS GOOD AS THE INPUTS TO THEM. IT SHOULD BE CLEAR TO THEM AS PROSPECTIVE MANAGERS THAT IT IS THE COMPTROLLER WHO IS BEST ABLE TO

PROVIDE MANY OF THESE INPUTS. THEY MUST RECOGNIZE THAT TOP MANAGERS MUST TURN TO THEIR COMPTROLLER IN SELECTING THE KEY PIECES OF MANAGEMENT CONTROL DATA WHICH HE REQUIRES; AND FOR PROVIDING THE RIGHT COST DATA TO BE USED IN MAKING TRADE-OFFS; AND FOR PROVIDING GOOD FORECASTS WHICH CAN BE INTERPRETED IN TERMS OF THE PROBLEMS RAISED AND THE OPTIONS OPEN; AND FOR DEVISING AND MONITORING PERFORMANCE MEASURES RELEVANT TO THE PROGRAM BEING MANAGED.

THIS THEN IS THE PARTNERSHIP THAT I VIEW AS A NECESSITY IN THE EVOLUTION OF OUR DEFENSE ORGANIZATIONS. THE MANAGER MUST INCLUDE THE COMPTROLLER AS AN IMPORTANT PART OF HIS DECISION AND CONTROL TEAM, AND THE COMPTROLLER MUST EXPAND HIS RESPONSIBILITIES BEYOND CONCENTRATING ON PAST ACCOUNTABILITY. IN THIS WAY, I BELIEVE, WE CAN ACHIEVE THE TYPE OF DECISION-MAKING IN THE MILITARY THAT IS NECESSARY TODAY.

THANK YOU

5/11/74
OBF

THE MANAGER AND COMPTROLLER: A NECESSARY PARTNERSHIP

WHEN I FIRST RECEIVED YOUR INVITATION TO SPEAK HERE TODAY, I MUST ADMIT THAT I WAS TEMPTED TO DECLINE. THE WORLD OF THE COMPTROLLER IS ONE THAT I HAVE VIEWED ONLY FROM AFAR. LIKE MANY LINE OFFICERS, I DO NOT PRETEND TO HAVE ANY GREAT DEPTH OF UNDERSTANDING OF HOW YOU ACCOMPLISH YOUR JOB.

AS I THOUGHT OVER YOUR PROPOSAL, HOWEVER, I CAME TO FEEL THAT WE HAVE SOMETHING OF IMPORTANCE TO SAY TO ONE ANOTHER. I WAS INVOLVED FOR SOME YEARS HERE IN WASHINGTON IN THE WORLD OF THE DEFENSE PROGRAMS, BOTH AS DIRECTOR OF THE NAVY'S SYSTEMS ANALYSIS DIVISION AND BEFORE THAT IN THE OFFICE OF OSD SYSTEMS ANALYSIS.

DURING THAT TIME, I WAS ALWAYS CONSCIOUS OF THE FACT THAT WHILE WE WERE ATTEMPTING TO DEAL WITH THE LARGE AGGREGATES OF THE PROGRAM, CONDUCTING TRADE-OFFS AND EVALUATING COST-EFFECTIVENESS, ANOTHER GROUP WAS SIMULTANEOUSLY MOVING FORWARD WITH THE BUDGET. STRANGELY, I PERCEIVED THAT NEITHER GROUP COMMUNICATED VERY OFTEN WITH THE OTHER, AND, WHEN THEY DID, THE IMMENSE DIFFERENCES IN THEIR FRAMES OF REFERENCES, VOCABULARIES, AND DATA BASES MADE MEANINGFUL COMMUNICATION NEARLY IMPOSSIBLE.

THIS LED ME TO REFLECT ON THE ROLE OF THE COMPTROLLER IN DEFENSE MANAGEMENT BECAUSE OF THE ANALOGY BETWEEN THE

RELATIONSHIP OF THE COMPTROLLER TO THE MANAGER AND THAT OF THE BUDGETEER AND THE PROGRAMMER. LET ME EXPLORE THE DIFFERENCES I PERCEIVED IN THE ROLES OF THE PROGRAMMER AND BUDGETEER A BIT FURTHER. IN THE PROGRAMMING WORLD, OUR FOCUS WAS ON OUTPUT--THE ULTIMATE MISSION EFFECTIVENESS OF SYSTEMS. THE BUDGETEER WAS CONCERNED WITH INPUTS--THE VARIOUS BITS AND PIECES THAT ADDED UP TO AN APPROPRIATION. PROGRAMMERS DEAL IN LARGE AGGREGATES OF RESOURCES; THE BUDGETEER DEAL IN MICRO-DETAIL. MOST IMPORTANTLY, THE PROGRAMMER'S THINKING WAS ON THE FUTURE, WHILE THE BUDGETEER LOOKED CONSTANTLY TO THE PAST FOR HIS COST DATA AND HIS PERFORMANCE DATA. EVEN HIS EVALUATION OF A BUDGET WAS ALMOST TOTALLY BASED ON THE DEGREE TO WHICH IT DEVIATED FROM THAT OF A PREVIOUS YEAR. THESE SAME DIFFERENCES EXIST, I BELIEVE, IN THE ORIENTATIONS OF THE MANAGER AND THE COMPTROLLER.

THIS BRINGS ME TO THE CENTRAL POINT I'D LIKE TO MAKE TODAY: THE NAVY CAN NO LONGER AFFORD TO PAY THE PENALTIES CAUSED BY AN INSUFFICIENT INTERCHANGE BETWEEN THESE TWO IMPORTANT ELEMENTS OF ITS MANAGEMENT STRUCTURE. SPECIFICALLY, THE COMPTROLLER SHOULD BE, AND PROBABLY IS, THE PERSON BEST AWARE OF THE DATA THAT IS RELEVANT TO MAKING DECISIONS THAT ARE FUTURE ORIENTED, AND THE MANAGER WHO DOES NOT EMPLOY THIS DATA TO THE FULLEST POSSIBLE EXTENT IS PROBABLY FORCED

INTO MAKING DECISIONS OF UNNECESSARILY LOW QUALITY. THUS, MY THESIS IS THAT THE MANAGER AND COMPTROLLER MUST JOINTLY DEVELOP INFORMATION STRUCTURES WHICH WILL FACILITATE DECISION MAKING IN THEIR PARTICULAR ORGANIZATION.

IMPROVING THE QUALITY OF OUR DECISIONS IS ESPECIALLY IMPORTANT TODAY. THE PAST SEVERAL YEARS HAVE BEEN ONES OF REDUCED PURCHASING POWER AND DRAMATIC REDUCTIONS IN NAVAL FORCES. THE CONTINUING GROWTH IN THE COST OF BOTH MANPOWER AND WEAPONS SYSTEMS, AS WELL AS THE INCREASING TECHNICAL AND POLITICAL COMPLEXITY OF OUR OPERATING ENVIRONMENTS, SUGGESTS THAT THESE PRESSURES ARE ONES WITH WHICH WE WILL HAVE TO LEARN TO LIVE. IT IS, I BELIEVE, IN TIMES OF DECLINING REAL RESOURCES THAT EFFECTIVE MANAGEMENT DECISION MAKING IS OF UTMOST IMPORTANCE. TO BORROW A PHRASE FROM THE ORGANIZATIONAL THEORISTS, SUCH PERIODS AS TODAY ARE THE ONES IN WHICH ORGANIZATIONAL SLACK--THOSE INEFFICIENCIES AND FRILLS THAT GROW IN A LARGE ORGANIZATION DURING TIMES OF PROSPERITY--MUST BE ELIMINATED. ANY SHORTCOMINGS IN THE MANAGER/COMPTROLLER PARTNERSHIP REPRESENT TO ME A SIGNIFICANT COMPONENT OF ORGANIZATIONAL SLACK.

THERE ARE A NUMBER OF REASONS WHY THIS PARTNERSHIP IN PLANNING HAS NOT BEEN FULLY REALIZED. I RAISE THEM NOT IN CRITICISM OF THE COMPTROLLER OR OF THE MANAGER, BUT RATHER TO SUGGEST NECESSARY DIRECTIONS FOR CHANGE. IN FACT, IF ANY

FAULT IS TO BE ASSIGNED, A LARGE SHARE MUST GO TO THE MANAGER WHO FAILS TO UNDERSTAND AND DEVELOP THE ASSISTANCE AVAILABLE TO HIM FROM THE COMPTROLLER. A FIRST PROBLEM STEMS FROM THE FACT THAT THE EMPHASIS OF ACCOUNTING DATA HAS BEEN PRIMARILY ON LIABILITY. THE RECENT DIFFICULTIES, THE NAVY HAS HAD WITH ITS MPN ACCOUNT WITH WHICH WE ARE ALL FAMILIAR, FOR EXAMPLE, HAVE ADDED TO THIS EMPHASIS ON THE PAST. THE MILITARY LINE MANAGER ALL TOO OFTEN ASKS ONLY THAT HIS COMPTROLLER KEEP HIM OUT OF TROUBLE.

AS A RESULT OF THIS EMPHASIS ON LIABILITY, MANAGEMENT CONTROL AND PLANNING IS FREQUENTLY RELEGATED TO A SECONDARY ROLE. THOSE FEW ELEMENTS OF DATA THAT A TOP MANAGER SHOULD SEE ARE NOT CAREFULLY CHOSEN. IN PART THIS IS BECAUSE NEITHER THE MANAGER NOR THE COMPTROLLER HAVE DETERMINED WHAT THEY ARE. MORE OFTEN IT IS DUE TO THE FACT THAT BOTH ARE ORIENTED TOWARDS AN OVERKILL PRESENTATION OF DATA TO INSURE THAT NOTHING IS MISSING. UNFORTUNATELY, WHAT FREQUENTLY ENDS UP MISSING IS THE MANAGER'S ABILITY TO SPOT POTENTIAL PROBLEMS REQUIRING CORRECTIVE ACTION. COMPUTERIZATION HAS, OF COURSE, ADDED TO THIS PROBLEM: JUST BECAUSE WE CAN NOW MANIPULATE AND PRESENT VAST QUANTITIES OF DATA, WE DO, WHETHER WE CAN UTILIZE THE DATA OR NOT.

A SECOND PROBLEM IS THAT THE COMPTROLLER DOES NOT BECOME SUFFICIENTLY INVOLVED IN THE TRADE-OFF DECISIONS THE MANAGER MUST MAKE. THE COMPLEX ACCOUNTING SYSTEMS NOW USED THROUGHOUT DOD HAVE MANY SEPARATE ACCOUNTS THAT ENTER INTO THE MANAGEMENT OF ANY SINGLE PROGRAM. COMPLEX ACCOUNTING SYSTEMS

ARE USEFUL AND NECESSARY IN SOME WAYS, BUT HAVE UNFORTUNATE DISFUNCTIONAL ASPECTS AS WELL. OFTEN THE MANAGER IS UNAWARE OF THE FULL COSTS OF HIS DECISIONS BECAUSE IMPORTANT COMPONENTS REMAIN INVISIBLE TO HIM IN ACCOUNTS HE IS NEITHER AWARE OF NOR RESPONSIBLE FOR. SIMILARLY, POTENTIALLY USEFUL AREAS FOR ANALYSIS ARE OFTEN OVERLOOKED BECAUSE THE MANAGER IS UNABLE TO GET A CLEAR PICTURE OF WHERE ALL THE COSTS ARE OR OF WHAT THE INTERRELATIONSHIPS BETWEEN PROGRAM ELEMENTS ARE. ANYONE WHO HAS GRAPPLED WITH THE PROBLEMS OF REDUCING SUPPORT FORCES, FOR EXAMPLE, CANNOT HELP BEING AWARE OF THESE PROBLEMS. IT IS VIRTUALLY IMPOSSIBLE TO ENVISION TRADE-OFFS OF THE TYPE WE TEACH AT THE WAR COLLEGE BEING MADE BY A DECISION MAKER UNAWARE OF THE COSTS ASSOCIATED WITH THE VARIOUS ALTERNATIVES.

THUS THE COMPTROLLER MUST BECOME MORE ACTIVE PLAYER IN THE MANAGEMENT FUNCTION. IN ADDITION, IT SEEMS VITAL TO ME THAT HE DIRECT MORE ATTENTION TO CAREFULLY AND WISELY STRUCTURING HIS ACCOUNTS WITH SUCH DECISION-MAKING IN MIND. NOT ONLY IS THE OLD CAUTION ABOUT NOT MIXING APPLES AND ORANGES RELEVANT, BUT ALSO THE CAUTION TO KEEP THE APPLE TOGETHER WITH ITS SKIN AND CORE SEEMS IMPORTANT. I WOULD SUGGEST THAT A REVIEW OF OUR FINANCIAL ACCOUNTS WITH DECISION-MAKING FOREMOST IN MIND IS IN ORDER.

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TROLLERS ARE FOUR THAT WE PRESENT TO OUR STUDENTS IN THE DEFENSE ECONOMICS AND DECISION MAKING COURSE AT THE NAVAL WAR COLLEGE. THIS COURSE FOCUSES ON THE PROBLEMS ASSOCIATED WITH THE ALLOCATION OF OUR LIMITED NATIONAL RESOURCES TO DEFENSE PROGRAMS IN A MANNER CONSISTENT WITH OUR NATIONAL GOALS AND STRATEGY. WE ATTEMPT TO PREPARE THE MILITARY MANAGER TO DEAL WITH THE VARIOUS TYPES OF RESOURCE ALLOCATION PROBLEMS THAT HE WILL BE CONFRONTED WITH AS HE ADVANCES TO SENIOR DECISION-MAKING POSITIONS. OUR OBJECTIVES ARE TO ASSIST THE MANAGER IN DEVELOPING TOOLS IN THREE PRINCIPAL AREAS: PROBLEM DEFINITION, DECISION MAKING, AND IMPLEMENTATION. WE ADDRESS THE OBJECTIVES AND MISSIONS OF THE NAVY IN THE CONTEXT OF BROAD MILITARY STRATEGY IN ORDER TO DEVELOP THE MANAGER'S ABILITY TO LOCATE AREAS IN WHICH THESE GOALS ARE NOT BEING MET, AS WELL AS TO DEVELOP HIS SKILL IN ASCERTAINING THE REASONS BEHIND SUCH FAILINGS. THE PROCESS OF RATIONAL CHOICE AMONG THE ALTERNATIVE WAYS OF ACCOMPLISHING OUR MISSIONS AND OBJECTIVES IS GIVEN HEAVY EMPHASIS IN THE COURSE. FINALLY, WE EXAMINE THE WAYS IN WHICH ORGANIZATIONAL STRUCTURE AND CONTROL CAN ASSIST THE DEFENSE MANAGER IN MAKING AND IMPLEMENTING DECISIONS. IN SUMMARY, OUR COURSE FOCUSES ON PROVIDING THE MILITARY MANAGER WITH SEVERAL IMPORTANT MANAGEMENT TOOLS: AN UNDERSTANDING OF THE PROCESSES BY WHICH SOUND DECISIONS CAN BE MADE AND OF THE TECHNIQUES AVAILABLE TO AID HIM IN THIS FUNCTION; AND AN UNDERSTANDING OF THE ENVIRONMENT IN WHICH THESE DECISIONS MUST BE MADE AND OF THE WAYS THIS ENVIRONMENT CAN BE USED AND STRUCTURED TO AID HIM IN MAKING AND IMPLEMENTING HIS DECISIONS.

I HOPE THAT TEACHING ON THE BASIS OF THESE THREE ELEMENTS OF MANAGEMENT WILL ACCENT TO OUR STUDENTS THE IMPORTANCE OF AN ACTIVE PARTNERSHIP BETWEEN THE MANAGER AND THE COMPTROLLER. WE WANT THEM TO SEE THAT ONLY BY HAVING THE CORRECT FINANCIAL INPUTS CAN THE MANAGER ACCOMPLISH HIS FUNCTION. WE DO REVIEW WITH THEM THE INCREASINGLY SOPHISTICATED TECHNIQUES AVAILABLE FOR RESOURCE MANAGEMENT TODAY, BUT POINT OUT THAT THEY ARE ONLY AS GOOD AS THE INPUTS TO THEM. IT SHOULD BE CLEAR TO THEM AS PROSPECTIVE MANAGERS THAT IT IS THE COMPTROLLER WHO IS BEST ABLE TO PROVIDE MANY OF THESE INPUTS. THEY MUST RECOGNIZE THAT TOP MANAGERS MUST TURN TO THEIR COMPTROLLER IN SELECTING THE KEY PIECES OF MANAGEMENT CONTROL DATA WHICH HE REQUIRES; AND FOR PROVIDING THE RIGHT COST DATA TO BE USED IN MAKING TRADE-OFFS; AND FOR PROVIDING GOOD FORECASTS WHICH CAN BE INTERPRETED IN TERMS OF THE PROBLEMS RAISED AND THE OPTIONS OPEN; AND FOR DEVISING AND MONITORING PERFORMANCE MEASURES RELEVANT TO THE PROGRAM BEING MANAGED.

THIS THEN IS THE PARTNERSHIP THAT I VIEW AS A NECESSITY IN THE EVOLUTION OF OUR DEFENSE ORGANIZATIONS. THE MANAGER MUST INCLUDE THE COMPTROLLER AS AN IMPORTANT PART OF HIS DECISION AND CONTROL TEAM, AND THE COMPTROLLER MUST EXPAND HIS RESPONSIBILITIES BEYOND CONCENTRATING ON PAST ACCOUNTABILITY. IN THIS WAY, I BELIEVE, WE CAN ACHIEVE THE TYPE OF DECISION-MAKING IN THE MILITARY THAT IS NECESSARY TODAY.

THANK YOU